

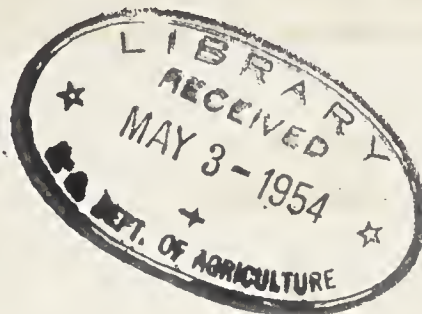
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U. S. DEPARTMENT OF AGRICULTURE
 Washington 25, D.C.
 Rural Electrification Administration.

June 24, 1953

TO : Northeast Area Staff
 FROM: John W. Asher, Jr., Director
 SUBJECT: General Information Letter No. 15



LOAN RESCISSIONS

A few issues ago we discussed the pride we had in the loan rescission program in the Northeast Area and gave a short list of four Section 4 loan rescissions pending, which we were trying to rescind prior to midnight June 30, 1953. We are pleased to give you the status of these rescissions:

Indiana 88	\$ 28,000	Has been rescinded.
Michigan 5	120,000	Has been rescinded.
N. C. 43	4,449.70	Has been rescinded.

The last one of this quartet to be rescinded is Ohio 24 Delaware, \$34,686.36. A telegram from the manager stated that the board would execute the legal documents at its June 16 board meeting. If they send in the documents promptly, this should be rescinded before June 30. We have prepared the rescission packet for North Carolina 41, City of Greenville, in the amount of \$310,000. This was done last week. It is, therefore, doubtful that this rescission can be completed prior to June 30.

Since the last newsletter, the following loans have been signed by the Administrator:

North Carolina 46	\$ 70,000	6/9/53
North Carolina 31	20,000	6/11/53 (Section 5)
New York 23	40,000	6/17/53
Virginia 31	550,000	6/17/53
North Carolina 43	960,000	6/18/53

This still leaves one loan that we hope will be considered by the Administrator prior to June 30. It is North Carolina 49 \$ 900,000.

UNADVANCED FUNDS

In analyzing the last statistical bulletin we received which is No. 145, we observed that as of March 31, 1953, total loans approved to 183 borrowers in the Northeast Area amount to \$372,440,406. Of this amount \$302,949,951 has been advanced (as of March 31, 1953) thus, the total unadvanced loan funds as of the last of March amounted to \$69,490,455. The complete breakdown by states is as follows:

<u>State</u>	<u>Number of Borrowers</u>	<u>Loans Approved</u>	<u>Funds Advanced</u>
Delaware	1	\$ 4,249,881	\$ 3,112,820
Indiana	47	55,431,866	47,481,530
Maine	5	2,122,813	1,697,174
Maryland	2	14,234,500	11,339,780
Michigan	15	51,139,515	43,408,383
New Hampshire	2	5,552,884	5,336,193
New Jersey	2	1,227,660	989,024
New York	7	5,159,331	4,744,006
North Carolina	38	87,604,853	67,686,356
Ohio	30	54,003,210	44,080,978
Pennsylvania	13	29,835,330	24,447,074
Vermont	3	3,641,918	3,235,467
Virginia	21	56,680,012	44,015,318
West Virginia	2	1,556,633	1,375,848
		<u>\$372,440,406</u>	<u>\$302,949,951</u>

This seems like a lot of unadvanced loan funds. However, it can be explained. The vast majority of unadvanced funds is usually money provided for system improvements. Let us illustrate. We prepare a loan recommendation packet. We use the KWH estimates expected to be reached by 1958 by various classes of consumers. Let's assume that the weighted average KWH consumption estimate for this period five years hence is 250 KWH per member per month. Before we can legally and administratively use the KWH estimates that resulted in the weighted average given above we must be assured that the borrower either has sufficient system improvement money on hand to provide a system capable of delivering 250 KWH per member per month for all classes of consumers or that sufficient money is being requested in the loan request which, if loaned, and put in plant will provide this definite system capability.

Borrowers wisely do not spend loan funds for system improvements too far in advance of when such improvements are needed. System improvements are a continuing process. Therefore, at any given time it is reasonable to assume that most borrowers will still have unadvanced system improvement loan funds. Of course there are miscellaneous items such as small amounts of legal, engineering, and contingency budget items which until such funds are requisitioned are naturally classed as unadvanced. There are some borrowers who have temporarily used general funds to finance work order construction and have not yet submitted work orders and requisitions for loan funds previously provided for construction. In assisting borrowers who desire your service in preparing loan applications, you should check into unadvanced funds in order that we may be in a position to delete from a loan request any possible unadvanced previous loan funds if they should not be needed for the original purpose for which such funds were provided.

LIAISON WITH EXTENSION SERVICE

The following memorandum dated June 10, 1953, was sent to all Area Directors by Administrator Nelsen:

"A close working relationship with the Extension Service can be an invaluable aid to the REA program. I would suggest that this relationship be strengthened wherever possible in order that your area people will be able to fully utilize the service and cooperation of that agency throughout the Country. As you know, H. S. Pringle is the liaison officer between REA and the Extension Service. In that capacity he is in a position to help you make our programs and mutual relationships more effective. Requests from the Extension Service for our assistance and cooperative should be referred to him and it is important that he be kept informed of all actions which may involve that agency."

Extension workers are financed jointly by funds provided by the Federal Government, various State Governments, and local county government and/or groups of county persons, or both. The primary purpose of extension work is to "improve living conditions for every man, woman, and child in the county or counties in which they work." They are fundamentally in a good position to help people with the planning and execution of local programs designed to help electric consumers make more efficient use of electric power.

TESTIMONY BEFORE CONGRESSIONAL COMMITTEES AND CONSULTATION WITH MEMBERS OF CONGRESS

Mr. Nelsen, on June 10, 1953, sent this memorandum to all Area Directors and Division Chiefs:

"In view of the important relationship of legislation to the responsibilities of the Department, and in order to facilitate proper coordination, it is necessary that the Secretary's Office be informed currently regarding matters affecting such relationship.

"Title 6, paragraph 444, of the Department's Administrative Regulations provides that the Secretary's Office shall be advised promptly by telephone when members of the Department are to testify before congressional committees on policy or other important matters concerning the Department, or are to consult with Members of Congress on such matters. These calls should be made to Mr. Daken Broadhead, Executive Assistant to the Secretary. It is expected that agency heads will also consult their group directors in appropriate cases.

"In addition, (as provided in the Department Regulations cited above) the Legislative Reporting Staff, Office of Budget and Finance, should be informed in all cases when members of the Department are to testify before congressional committees.

"These requirements do not apply to hearings on Budget estimates, for which a different procedure is prescribed."

FILM STRIP PROJECTORS AND FILM STRIPS

As we are sure most GFR's know, several color filmstrips have been made for their use in presenting various phases of the program to borrower boards and employees. Three such strips dealing with electric farming and one on the technical operations and maintenance program are already available, and one on capital credits has been completed and will be available soon.

As a guide to future planning of this type of work, the several staff divisions concerned have asked us to get information about the use you are making of filmstrips and the extent to which projectors for showing them are available to GFRs. Consequently, we would like to have in your next field report a paragraph or so on this subject. Be sure to indicate whether or not you have a filmstrip projector assigned to you, the condition it is in, how frequently you use it, what use you have made of the filmstrips so far provided, what other subjects you would like to see covered, and how you rate filmstrips as a means of getting information over to a co-op board or stimulating discussion at a board meeting. If you do not have a projector and would like us to try and get you one, include that information. This request applies primarily to GFRs, but we would like the same information from any of the specialists who have had experience in the use of filmstrips.

USE FIELD ACTIVITIES REPORT

In the past it has been customary for the field staff to report significant phone calls with borrowers by memo to the Area Director. It is our suggestion that in the future such phone calls be reported on a field activities report rather than by memo. This will enable us to keep a record of all contacts with borrowers in the same file and to furnish copies to other interested members of the REA staff.

MONEY-SAVING SUGGESTION FOR BORROWERS

We try our best, of course, to give immediate answers to all long distance telephone inquiries, and where the answer is to be found within the Area Office, we're set up so we can do it promptly. However, many matters which borrowers refer to us are worked on by people in other offices such as the Solicitor's Office, Buildings and Structures, Retail Rate Section, Power Division, etc. We often try to get such people on the call, but that takes time, and sometimes the right person is not available on a few seconds notice. Besides this, we work with about 178 borrowers, and some of the staff people work with nearly a thousand. Sometimes we forget the details of a problem and need to refresh our memories.

So here's a suggestion. If a co-op should send us a wire stating that they would phone us in a few hours, and mention the topics to be discussed, we would generally be able to have all the pertinent facts line up, the right people on the phone, and give a quick complete answer. We suggest that you pass this suggestion along to the borrowers. On complicated matters involving other offices, we believe this procedure could save money for the borrowers.

REA DISCONTINUES ACCOUNTING COURSE

In accordance with the Administrator's letter of May 22, 1953, the REA Correspondence Accounting Course will be discontinued as of June 30, 1953. This is in line with the policy of transferring to the borrowers increasing responsibility for running their own affairs. Enrollees who complete the course and pass the final examination by June 15, 1953 will receive Certificates of Proficiency. We hope to send copies of the lesson and the exam to any manager who requests them and is willing to assume responsibility for using the material as a part of the cooperative's training program.

2nd of the Series - THE BUDGETARY CONTROL SYSTEM FOR ADVANCING FUNDS

As funds are required from 17 - Reserve, based on various contracts, amendments, and other documents, entries will be made in column 3 of the Financial Requirement Statement (Form FI-121A) and returned to the borrower with full explanation in the adjustment report letter.

Adjustments to the budget may be requested by the borrower as the need arises. If funds are desired for a purpose for which no budget amount has been established, approval of REA must be obtained before any expenditure from loan funds for that purpose is made.

As noted in the first issue in the series, generally advances may be requested up to, but not in excess of, the amounts established for each purpose in column 2 of the Financial Requirement Statement. Expenditures by the borrower for a specific approved purpose must be kept within the amount approved. Funds advanced for a specific purpose must be expended for that purpose only.

Advancing funds to REA borrowers is on the basis of a "drawing account" for approved budget items, in which anticipated requirements for current needs may be requested by the borrower and approved for advance by REA. The expenditure of funds previously advanced is to be accounted for each month on Expenditure Report Form FI-121B. Subsequent advances can not be made unless a current expenditure report has been submitted. The Financial Requirement Statement should be prepared and submitted in time to avoid delays of the construction activities due to the lack of funds. Funds should be requested in amounts sufficient to meet the borrower's current requirements for at least 30 to 60 days.

As noted in the first issue, the current procedure for budgetary control as now practiced is to break down each allocation for several purposes, such as 1- Construction, 2 - Meters, 4 - Line Transformers, 5- Legal Fees, 6 - Miscellaneous Legal, 7 - Engineering, 8 - Pre Loan, 9 - Right of Way, 10 - General Overhead, 11 - Equipment, and other special purposes where necessary. The budget purposes and type data or documents needed to transfer funds from the Reserves to the approved budget are summarized herewith.

Budget Purpose	Type of Data or Documents Required for Contract Construction:
1 - Reserves for Sectional Construction by Contracts or F/A	Contracts with the contractor must be submitted to the area office for approval. The amount made available is based on the contract price. The advance of funds for the contractor may be advanced to 90% of the amount approved. The final advance for the contractor is made on the basis of the amount approved on the Wash-up Amendment. Material furnished by the

borrower may be advanced to the full amount of the approved budget and the final advance will be adjusted after approving the final inventory.

For F/A construction plans and specifications must be prepared by the borrowers engineer and approved by an REA field engineer then submitted to the area office for approval. The amount made available is based on the estimated cost of construction and generally may be advanced to the full amount approved. The final advance will be adjusted after approving the final inventory.

- 2 - Meters
- 4 - Line Transformers
- 6 - Miscellaneous Legal Expense
- 8 - Pre Loan
- 9 - Right of Way
- 10- General Overhead
- 11- Equipment

5- Legal Fees

Advances may be made as requested by borrower to the full amount of the approved budget. In the first issue it will be noted that funds for these purposes were established in the budget to the full amount included in the loan.

Advances may be made up to 80% of the approved budget upon request by the borrower. The remaining 20% may be advanced after approval of the Proof of Right of Way.

7- Engineering

Approved Engineering Service Contracts are usually the basis for making these funds available for advance. The amount made available is based on the estimated fee and generally may be advanced to 90% of the amount approved. The final advance is made on the basis of the amount approved on the Final Statement of Engineering Fee. Architectural Services come under this category.

CAPITAL CREDITS RETIREMENT - FORTY PERCENT EQUITY

The question frequently arises concerning the method of computing the ratio of capital to total assets to determine whether or not a cooperative's financial position will permit the retirement of capital credits to patrons. For the benefit of all members of the Area staff, we are outlining below the method of calculating this ratio.

First let us restate the standard provisions of cooperatives' bylaws pertaining to the retirements of capital credits:

"If, at any time prior to dissolution or liquidation, the board of trustees shall determine that the financial condition of the Cooperative will not be impaired thereby, the capital then credited to patrons' accounts may be retired in full or in part. Any such retirements of capital shall be made in order of priority according to the year in which the capital was furnished and credited, the capital first received by the Cooperative being the first retired. In no event, however, may any such capital be retired unless, after the proposed retirement, the capital of the Cooperative shall equal at least forty per centum (40%) of the total assets of the Cooperative."

REA recommends that an audit be made of each cooperative's records at the end of each calendar or fiscal year and that appropriate adjustments be made including the clearance of suspense accounts, before capital credits are assigned to patrons. The balance sheet data presented in the Monthly Financial and Statistical Report, (ADM-29A) may then be used for the computation of the ratio of capital to total assets.

Line 25, Total Assets and Other Debits, on that statement reflects the net asset after deducting reserves for depreciation and reserves for uncollectible accounts. Such accounts as preliminary surveys and investigation charges and other deferred debits are not considered significant and may be included in the total assets. This amount will also include the value of materials and supplies and loan fund cash balances. The amount shown on line 25 represents the total assets which may ordinarily be used in making the computation.

The Total capital is obtained by adding line 28, Total Patrons' Capital, and line 49, Total Margins and Other Equities. Line 43, Contributions in Aid of Construction, may also be included as part of total capital for the purpose of computing this ratio. The amount shown for membership fees should be included in total capital whether or not the cooperative has adopted a policy of refunding memberships.

The next step is to determine the total amount of capital which the cooperative proposes to retire. This amount should then be deducted from the total assets and from the total capital. The deductions should be made from both amounts since the payment of capital credits will reduce both the total assets and the total capital on the balance sheet. The resulting amount should then be used to determine the ratio by dividing the total capital by the total assets. If the percentage obtained exceeds 40%, it has been determined that the cooperative may retire the proposed capital credits without impairing its financial position.

PERSONNEL

Mr. Wrinkle is batching it this week, his wife is vacationing in New Jersey.

Dayton Ward's daughter Toni graduated from high school June 19. Same day the Area Director was grouching because he had to work on his 16th wedding anniversary. Mr. Wrinkle's daughter Patricia Ann also graduated last week.

Laura Wright is back to work and looking fine.

This area received a very nice thank you card from Grace Jeffries, for the flowers we sent her. She is progressing nicely and will be back on the job soon.

From all reports, the Northeast Area Boat Ride on Friday, June 12, was a lot of fun and we bet more will attend next time.

NORTHEAST AREA OFFICE PICNIC

Saturday afternoon and Early Evening - June 27, 1953, Rain or Shine, at the Pinecrest Recreational Area, Silver Spring, Maryland. Large room and fireplace in lodge in case of rain.

Our permit specifies the usual park rules. No beer or alcoholic beverages allowed; fires permitted in fireplaces only; trash must be left in containers.

There is a copy of the committee's June 4th memo on our bulletin board in case you have forgotten the details.

